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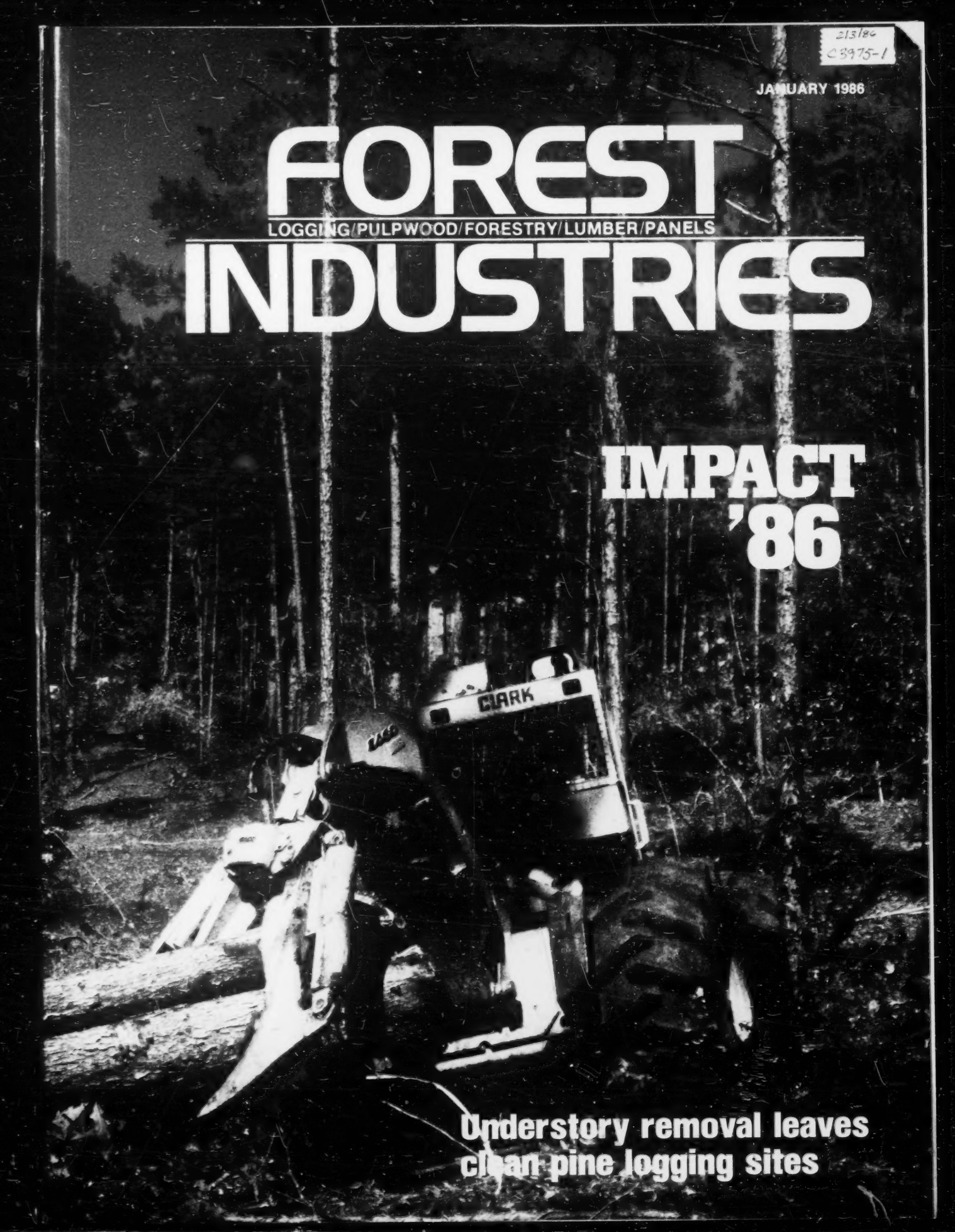
JANUARY 1986

FOREST INDUSTRIES

LOGGING/PULPWOOD/FORESTRY/LUMBER/PANELS

IMPACT '86



Understory removal leaves clean pine logging sites

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Analysts' projections for 1986

(Percentage change from '85 levels, except as indicated)

	Growth in real GNP (%)	U.S. Production Lumber	U.S. Production Structural panel	Lumber/panel prices	Operating profits Paper	Operating profits Forest products	Housing starts[1]
George Adler Smith Barney	+2.0	n.e.[2]	n.e.	n.e.	+25-40	+40	1.7
Bruce Kirk Goldman Sachs	+3.4	-1.6	-2.2	n.e.	+39	+45	2.0
Evadna Lynn Merrill Lynch	+2.9	+8.0	+1.8	+2.0	+14.4	+23.3	1.78
Mark Rogers Dean Witter	+3.5	+9	+5	+5	+48	+34	1.8
Lawrence Ross PaineWebber	+3.2	+3-5	+4-5	+5-10	+20-30	+25-35	1.8
Bowen Smith Salomon Bros.	+3.0	-1.5	0	+2-3	+15	+5	1.7-1.75
William Wigder First Boston	+2.0-3.0	n.e.	n.e.	+4	+15	+30-75	1.75
Average	**+2.9**	**+3.6**	**+1.8**	**+4.2**	**+27.7**	**+33.2**	**1.8**

[1]millions of units; [2]n.e. = no estimate.

Seven analysts looking ahead *at 1986's economy, seven crystal balls. But this time, they seem to be pretty well in focus on the major issues which will affect the wood products industry in 1986. All expect moderate economic growth and continued strength in housing. More information about how the U.S. economy shapes up in 1986 is on pp. 22-23.*

Maxxam gets Palco; Potlatch saves itself

SAN FRANCISCO, CALIF.—Attempted takeovers of two San Francisco-based forest products companies produced opposite results in November. Potlatch Corp. staved off a Canadian bid by paying nearly $48 million to its would-be buyers.

But after a brief battle of the judges, Maxxam Group Inc. got a judicial go-ahead to buy all of The Pacific Lumber Co.'s shares. Maxxam, headed by financier Charles Hurwitz, will pay $40 each for the 21.8 million shares.

In early December, Maxxam said it had bought 60% of the shares. Maxxam will get $475 million from Drexel Burnham Lambert Inc. and the Irving Trust Co. to help finance the stock purchase. The remaining $49 million needed to buy the first block of 13.1 million Palco shares will come from Maxxam's own funds. Maxxam already owned 4.5% of Palco, and plans to buy all of the rest.

Three shareholders apparently have not given up their attempt to keep Pacific Lumber independent. The dissidents, grandchildren of a former Palco chairman, filed suit in Maine to block the takeover. Pacific Lumber is incorporated in Maine, though its headquarters is in San Francisco.

The dissidents charged that Pacific Lumber directors acted improperly when they approved the merger with Maxxam. Maxxam and Pacific Lumber said they plan a "vigorous" defense against the suit and any other actions which seek to block the merger.

Potlatch paid the Belzberg family of Vancouver, B.C., $43 a share for their 7.1% stake in the company. The Belzbergs agreed not to deal in Potlatch stock or participate in any takeover bid for five years in return for their $8.7-million profit on the deal.

Other mergers and acquisitions in the industry include:

• Jefferson Smurfit Corp. will buy 80% of Publishers Paper Co., Times Mirror Co.'s newsprint and wood products producer. The $150-million price does not include Times Mirror's 272,000 acres of timberland or most of its long-term government timber-cutting contracts. Times Mirror will keep the remaining 20% of Publishers Paper, which operates four sawmills, two particleboard plants, two newsprint mills and 12 wastepaper reclamation plants. Most of its facilities are in Oregon.

• To try to protect its independence, Times Mirror plans to reincorporate in Delaware, then enact a series of anti-takeover measures. These include changes in bylaws and board structure to make a buyout harder. Stockholders will vote on the proposed changes Feb. 12. Last summer, Times Mirror bought 7.5 million of its shares; insiders own about 40% of the stock.

• Pope & Talbot Inc. shareholders have approved a plan to transfer some of P&T's timberland and development property to a limited partnership. P&T shareholders of record Dec. 12 will receive one partnership unit for each five shares of common stock. The partnership will pay P&T $25.9 million for the assets.

• ITT Rayonier sold out the initial offering of units of Rayonier Timberlands limited partnership in one week in November. The sale of 5.06 million units—25% of the total number of units—raises about $94 million for the company and its parent, ITT Corp. The partnership holds 1.2 million acres of ITT Rayonier timberland in Washington and the Southeast.

• Georgia-Pacific Corp. has won a $10-million judgment in a 10-year-old suit against the U.S. Army Corps of Engineers. G-P claimed the Corps had not paid enough for 9300 acres in southwestern West Virginia which the agency

Results of FI's capital spending survey: Mill projects starting up in 1985-87 exceed $1 billion value. Panels claim 63% of total, but lumber manufacturers are busy

Wood industry spending concentrates on panels

By David A. Pease

San Francisco, California

It seems that someone is always taking the pulse of the North American solid-wood products industry, still undergoing a wobbly recovery after it was mashed flat five years ago by high mortgage interest rates.

We are no more immune to this thrall than are the legions of economists and analysts upon whose words we dote, so the staff agreed a "first annual" survey of capital spending projects would be a desirable component of this January 1986 review-and-outlook issue. The results are summarized in the accompanying tables, followed on the next two pages by a list of projects.

Reported capital spending projects in the United States and Canada, with startup dates ranging from 1985 through 1987, are valued at an estimated $1,029,400,000. (Except where noted otherwise, Canadian figures have been converted to U.S. dollars at a rate of 0.73:1.)

By far the biggest share of the survey total is represented by the ongoing surge of waferboard and oriented strand board (OSB) plant construction and expansion, worth an estimated $422.5 million. Add new medium-density fiberboard (MDF) plant construction and reconstruction, valued at $184.2 million, and a cluster of plywood and particleboard plant remodeling projects, at $40.5 million and $17.8 million, respectively, and the value assigned to panel projects climbs to $647.2 million. This is 63% of the survey total.

True to its current star billing, the South accounted for $578.2 million worth of capital projects, 56% of the total. Projects earmarked for western states came in next at $204 million, 20% of the total. Canadian projects, at $93.7 million, represent 9% of the survey total.

The survey turned up 127 projects

Reported capital spending projects, North American solid-wood industry, 1985-87, by product and start-up year (millions of US$)

	1985	1986	1987	Total
UNITED STATES				
Lumber	**98.5**	**43.4**	**5.6**	**147.5**
New mills	74.5	35.0	—	109.5
Modernization	24.0	8.4	5.6	38.0
Plywood[1]	**31.5**	**8.0**	**1.0**	**40.5**
Waferboard/OSB	**222.5**	**120.0**	**80.0**	**422.5**
New mills	180.0	120.0	80.0	380.0
Modernization	42.5	—	—	42.5
Particleboard[1]	**5.3**	**12.5**	**—**	**17.8**
Fiberboard	**70.0**	**55.0**	**30.0**	**155.0**
New mills	60.0	35.0	30.0	125.0
Modernization	10.0	20.0	—	30.0
LVL[2]	**10.0**	**33.0**	**—**	**43.0**
Energy[2]	**28.2**	**80.6**	**—**	**108.8**
Other	**0.6**	**—**	**—**	**0.6**
TOTAL U.S.	**466.6**	**352.5**	**116.6**	**935.7**
CANADA (in US$)				
Lumber	**48.5**	**8.7**	**4.2**	**61.4**
New mills	27.7	—	—	27.7
Modernization	20.8	8.7	4.2	33.7
Fiberboard[2]	**—**	**29.2**	**—**	**29.2**
Other	**—**	**3.1**	**—**	**3.1**
TOTAL CANADA	**48.5**	**41.0**	**4.2**	**93.7**
TOTAL NORTH AMERICA	**515.1**	**393.5**	**120.8**	**1029.4**

[1] Modernization only; [2] New plants only.

scheduled for completion over the three-year period. Here's how it was undertaken:

While FOREST INDUSTRIES in the past has published capital project reports based entirely on previously-published news items (the last was in the January 1983 issue), the figures on these pages represent our first attempt at a much more thorough approach to the generation of information.

Questionnaires requesting participation in the survey were mailed to some 300 corporations in the U.S. and Canada, followed by a second mailing to those who didn't reply. As there are some companies who as a matter of policy or sloth (one suspects the former) wouldn't answer 32 bars of reveille from Gabriel's B-flat cornet, the staff cross-checked against annual reports, news releases, supplier information and other evidence vacuumed from our files.

Thus the information in these tables has evolved from a foundation of fact rather than speculation, although the dollar totals represent a mixture of reported figures and our own estimates, to a ratio of about 3:1 in favor of the former. We are convinced any errors are those of omission, i.e., projects on the drawing boards about which the owners are keeping mum.

Some companies responding, large and small, were exceptionally candid and thorough in outlining their capital spending programs in detail, and we are appropriately thankful. We didn't list line-by-line cost figures so as not to put anyone on the spot.

Tables of figures don't tell all, of course, so let us examine some of the information which has fallen out of this statistical project, by industry segment. First, lumber.

The survey shows 10 new sawmills being built by an equal number of companies: eight in the U.S., with annual capacity totaling 403 million bd ft; and two in Canada, with annual capacity of 150 million bd ft. Eight of these—the two in British Columbia and six in the U.S.—came on line in 1985. Two are hardwood mills, the balance softwood. Among softwood lumber producers, emphasis is not so much on adding capacity as it is to provide new and more efficient facilities to replace obsolete mills.

Thus there is also a substantial commitment to remodeling, particularly in the West. The survey turned up 32 such projects by 16 companies in the U.S., and 30 projects by 17 companies in Canada. Here's a shopping list gleaned from returned questionnaires: 27 edgers and circular gangs, 19 dry kilns, 12 sorters (green and dry), 10 edger optimizers, eight headrigs (band and canter), eight trimmer optimizers, seven chippers, six canter conversions, six resaws, five debarkers, five trimmers, four planers, three carriages, two stud lines and one sash gang.

Panels as a category account for fewer projects but a much higher expenditure. Most of the new OSB, waferboard and MDF plants and expansions have been well-publicized. The survey lists 15 new wood-based panel plants started up in 1985 or currently scheduled for completion through 1987 by six corporations. Of that total, 14 plants are in the U.S. and one is in Canada; 10 are waferboard or OSB and five are MDF. Plus which there are 10 modernization and expansion projects by eight companies, including five which involve substantial expenditures.

Reported capital spending projects, North American solid-wood industry, 1985-87, by state/province and region (millions of US$)

	Lumber	Plywood	Board	Other	Total
Alabama	26.7	—	—	—	26.7
Arkansas	3.5	—	—	—	3.5
Florida	0.4	—	—	10.0	10.4
Georgia	30.1	0.4	—	—	30.5
Louisiana	1.9	6.7	72.0	13.0	93.6
Mississippi	0.6	—	40.0	0.5	41.1
N. Caroiina	2.0	—	100.0	10.0	112.0
S. Carolina	0.4	—	—	—	0.4
Texas	30.0	5.0	115.0	—	150.0
Virginia	—	—	110.0	—	110.0
SOUTH	**95.6**	**12.1**	**437.0**	**33.5**	**578.2**
California	22.5	—	30.0	63.0	115.5
Idaho	1.0	—	—	10.2	11.2
Montana	0.6	—	—	—	0.6
Oregon	12.6	20.3	6.8	15.7	55.4
Washington	13.0	8.1	—	—	21.1
Wyoming	0.2	—	—	—	0.2
W. COAST	**49.9**	**28.4**	**36.8**	**88.9**	**204.0**
Indiana	2.0	—	—	—	2.0
Michigan	—	—	30.0	—	30.0
Minnesota	—	—	30.0	—	30.0
Wisconsin	—	—	20.0	—	20.0
N. CENTRAL	**2.0**	**—**	**80.0**	**—**	**82.0**
Maine	—	—	21.5	30.0	51.5
New York	—	—	20.0	—	20.0
NORTHEAST	**—**	**—**	**41.5**	**30.0**	**71.5**
Alberta	2.5	—	29.2	—	31.7
B.C.	37.7	—	—	3.1	40.8
W. CANADA	**40.2**	**—**	**29.2**	**3.1**	**72.5**
N.B.	6.0	—	—	—	6.0
Ontario	1.1	—	—	—	1.1
Quebec	14.1	—	—	—	14.1
E. CANADA	**21.2**	**—**	**—**	**—**	**21.2**
					1029.4

The survey shows an addition of 1.68 billion ft² to U.S. waferboard/OSB annual capacity through new plants coming on line through the three-year survey period: 782 million ft² in 1985; 505 million ft² in 1986; and 390 million ft² in 1987 (all ⅜-in. basis). These figures do not include plant expansions.

New MDF plants in the U.S. and Canada should add 330 million ft² (¾-in. basis) in annual capacity over the three-year survey period, with more coming from reconstruction and modernization projects.

Responses of plywood manufacturers fell exclusively into the plant remodeling category. No new plywood plants turned up; however, 16 modernization projects by six companies focused on log processing, green end, veneer drying and layup improvements.

Ten of these projects are in the West and six are in the South.

The survey lists eight electricity generating plants valued at $108.8 million. Five are mill-based cogeneration facilities, one is a non-mill, wood-fueled power plant and two will generate electricity only for sawmill purposes.

Four laminated veneer lumber plants contributed an estimated $43 million to the survey total.

The big spenders in this survey are just about who you would expect. With 49% of the survey cost total represented by new panel plants, it is logical that the corporations most prominent in the race to add capacity are contributing most to the solid-wood industry's total capital investment.

Louisiana-Pacific Corp., over the three-year survey period, is starting up four new waferboard plants, four new MDF plants, two major waferboard plant expansions and a new sawmill. Based on costs of similar projects, we have estimated the total value of these projects at $325 million.

Georgia-Pacific Corp. falls next in step with three OSB plants and one waferboard plant remodeling project, estimated at $121.5 million.

We can identify only two Weyerhaeuser Co. projects for the period, but one of them – a huge, $50-million OSB plant at Elkin, N.C., which is due for completion in 1986 – contributes a ma-

LUMBER

New sawmills, U.S.

Company, mill location	Annual Capacity (bd ft)	Startup
Anthony Forest Products Co., Urbana, Ark.	20	1985
C. H. Best & Son, Floyds Knobs, Ind.	4	1985
M. C. Dixon Lumber Co., Eufaula, Ala.	75	1985
ITT Rayonier, Baxley, Ga.	75	1985
Louisiana-Pacific Corp., Standard, Calif.	70	1985
J. P. Smith Lumber Co., Menlo, Ga.	9	1985
Seneca Sawmill Co., Eugene, Ore., stud mill	25	1986
Temple-Eastex Inc., Evadale, Texas	125	1986

New sawmills, Canada

B.C. Forest Products Ltd., Vancouver, B.C.	135	1985
MacMillan Bloedel Ltd., Chemainus, B.C.	110	1985

Plant modernization projects, U.S.

Company, mill location	Startup
Olon Belcher Lumber Co., Brent, Ala., headrig, carriage, kiln	1985
Boise Cascade Corp., Council, Idaho, resaw	1985
Boise Cascade Corp., Kettle Falls, Wash., sorter	1985
Boise Cascade Corp., White City, Ore., planing mill	1985
Boise Cascade Corp., Yakima, Wash., planer, trimmer, sorters, stacker	1985
Cambria Forest Industries Inc., Newcastle, Wyoming, sash gang	1985
Crane Mills, Paskenta, Calif., kiln, edger, optimizer	1985
Ellingson Lumber Co., Baker, Ore., twin band, edger, sorter, setworks	1985
Gilman Paper Co., Blackshear, Ga., chipping headrig, edger conversions	1985
Gilman Paper Co., Fitzgerald, Ga., chipping headrig, edger conversions, new and rebuilt kilns, lug loader	1985
Gilman Paper Co., Manville, Fla., chipping headrig, edger conversions, kiln rebuild, debarker, stacker	1985
Gulf Lumber Co., Mobile, Ala., sharp chain headrig, gangs, edger, sheds, kiln controls, shavings system	1985
Charles Ingram Lumber Co., Effingham, S.C., trimmer, optimizer	1985
Kitchens Bros. Mfg. Co., Hazlehurst, Miss., four kilns	1985
Roy O. Martin Lumber Co., Castor, La., edger optimizer, chipper	1985
Roy O. Martin Lumber Co., Lemoyen, La., eight kilns	1985
Paul Bunyan Lumber Co., Anderson, Calif., edger, optimizer	1985
Seattle-Snohomish Mill Co., Snohomish, Wash., green chain, timber sorting facility, packaging station	1985
Shuqualak Lumber Co., Shuqualak, Miss., planer	1985
F. H. Stoltze Land & Lumber Co., Columbia Falls, Mont., quad band, feedworks, log deck, cutoff saw, debarker	1985
F. H. Stoltze Land & Lumber Co., Dillon, Mont., kiln	1985
Weyerhaeuser Co., Plymouth, N.C., expansion, automation	1985
Olon Belcher Lumber Co., Brent, Ala., pressure treating plant	1986
Boise Cascade Corp., Yakima, Wash., carriages, drives, resaws	1986
Cone Lumber Co., Goshen, Ore., bandmill, edger	1986
Crane Mills, Paskenta, Calif., carriage, setworks	1986
Seattle-Snohomish Mill Co., Snohomish, Wash., trimmer, sorting yard	1986
Willamette Industries Inc., Dallas, Ore., debarker system	1986
Boise Cascade Corp., Goldendale, Wash., green sorter	1987
Boise Cascade Corp., Kettle Falls, Wash., canter infeed	1987
Boise Cascade Corp., Yakima, Wash., log infeed	1987
Gulf Lumber Co., Mobile, Ala., green sorter	1987

Plant modernization projects, Canada

Company, mill location	Startup
Adrien Arsenault Ltd., Balmoral, N.B., chipping system	1985
B.C. Forest Products Ltd., Delta, B.C., chipper, gang, trimmer optimizer, sorter, quad setworks	1985
Canfor Corp., Grande Prairie, Alta., portal log crane	1985
Canfor Corp., Isle Pierre, B.C., conversion to studmill	1985
Clearwater Timber Products Ltd., Kamloops, B.C., planing mill	1985
Clermont Hamel Ltée., Saint Ephrem, Que., slasher	1985
Crestbrook Forest Industries Ltd., Elko, B.C., sorter, MSR line	1985
Bois Daaquam Inc., Daaquam, Que., kiln, boiler	1985
Raoul Guerette Inc., Dégelis, Que., stud line, boiler	1985
J. D. Irving, Chipman, N.B., canter/twin band line	1985
J. D. Irving, Deersdale, N.B., drop sorter	1985
J. D. Irving, Pennfield, N.B., edger	1985
J. D. Irving, Veneer, N.B., slasher, kiln, edger, sorter	1985
Lacroix Lumber Ltd., Causapcal, Que., slasher	1985
Lacroix Lumber Ltd., Port Daniel, Que., edger, twin band, chipper	1985
Marcel Lauzon Inc., East Hereford, Que., edger, optimizer	1985
La Scierie des Outardes, Baie Comeau, Que., modernization, expansion	1985
B.C. Forest Products Ltd., Youbou, B.C., sorter, resaw, log handling	1986
Barrette Chapais Ltée., Chapais, Que., kilns, modernization	1986
Great West Timber Ltd., Thunder Bay, Ont., stud line, kiln	1986
Raoul Guerette Inc., Dégelis, Que., kiln	1986
J. D. Irving, Deersdale, N.B., kiln	1986
J. D. Irving, Sussex, N.B., edger	1986
Lacroix Lumber Ltd., Causapcal, Que., chipper-canter, edger	1986
Lacroix Lumber Ltd., Port Daniel, Que., debarker	1986
Midland Transport Ltd., Chipman, N.B., modernization	1986
United Sawmill Ltd., Hearst, Ont., edger, optimizer	1986
J. D. Irving, all mills, edger and trimmer optimizers	1987
Marcel Lauzon Inc., East Hereford, Que., trimmer optimizer	1987
The Pas Lumber Co. Ltd., Bear Lake, B.C., planing mill	1987

jor chunk to an estimated $60 million.

Significant to the industry's survival program is the way the fourth-ranked company has spread out its capital investments. Boise Cascade Corp. listed seven sawmill remodeling projects at five locations, worth $10.9 million, and nine plywood plant upgrading projects at seven locations, valued at $24.4 million, for a total three-year capital program of $35.3 million.

Willamette Industries Inc. similarly has committed $11.2 to a broad-based program aimed at improving manufacturing efficiency at five lumber, plywood and particleboard mills in the West and South.

In Canada, British Columbia Forest Products Ltd. has listed projects at three B.C. sawmill divisions valued at C$21.3, one of which is a C$15 million sawmill at Vancouver which replaces an older and less efficient mill. Remodeling accounts for the balance.

J. D. Irving Ltd. is upgrading sawmills at five New Brunswick locations through seven projects budgeted for C$6.9 million.

Simpson Timber Co. has indicated long-range plans to spend $40 million on facilities to accomplish a product restructuring program, but honesty prevented us from including all but the estimated cost of a 1985-completed overlay plant in the survey total.

There are other things we didn't report, as well. Read between the lines and you'll realize that the survey does not contain vehicles and rolling stock, logging equipment, or woods improvements. One company listed $1 million for a mobile chipper, but we didn't tabulate it because we hadn't asked for comparable figures across the board.

Another reply we didn't include, for the same reason, listed logging roads, bridges, miscellaneous essential replacements, modernization and energy conservation projects valued at C$18-30 million over a two-year period.

The survey was designed around fixed manufacturing facilities, with the view that otherwise it would be too complicated and responses would be discouraged.

We welcome suggestions for improvement of next year's survey. ■

PLYWOOD AND VENEER

New mills

None

Plant modernization projects

Company, mill location	Startup
Boise Cascade Corp., Elgin, Ore., green end, log processing	1985
Boise Cascade Corp., Florien, La., green end	1985
Boise Cascade Corp., St. Helens, Ore., log processing, log chipping	1985
Boise Cascade Corp., Yakima, Wash., layup line	1985
Champion International Corp., Camden, Texas, green end	1985
Great Southern Plywood, Cedar Springs, Ga., modernization	1985
Hardel Mutual Plywood Corp., Olympia, Wash., modernization	1985
Simpson Timber Co., McCleary, Wash., overlay line (part of long-range, $40-million product restructuring program)	1985
Willamette Industries Inc., Foster, Ore., green end	1985
Willamette Industries Inc., Taylor, La., green end, dryer	1985
Boise Cascade Corp., Medford, Ore., block conditioning	1986
Boise Cascade Corp., Oakdale, La., green end	1986
Boise Cascade Corp., White City, Ore., layup line	1986
Boise Cascade Corp., Yakima, Wash., RF veneer redryer	1986
Great Southern Plywood, Cedar Springs, Ga., reclaim, hog	1986
Boise Cascade Corp., Medford, Ore., layup line	1987

WOOD-BASED PANELS (OTHER THAN PLYWOOD)

New panel plants, U.S.

Company, mill location, product	Annual Capacity*	Startup
Georgia-Pacific Corp., Grenada, Miss., OSB	246	1985
Georgia-Pacific Corp., Skippers, Va., OSB	246	1985
Louisiana-Pacific Corp., Dungannon, Va., Waferboard/OSB	90	1985
Louisiana-Pacific Corp., Newberry, Mich., MDF	50	1985
Louisiana-Pacific Corp., Oroville, Calif., MDF	50	1985
Louisiana-Pacific Corp., Two Harbors, Minn., Waferboard/OSB	80	1985
Louisiana-Pacific Corp., Urania, La., Waferboard/OSB	120	1985
Arrowood Technologies Ltd., Roxboro, N.C., OSB	130	1986
Louisiana-Pacific Corp., New Waverly, Texas, MDF	45	1986
Louisiana-Pacific Corp., New Waverly, Texas, Waferboard	100	1986
Weyerhaeuser Co., Elkin, N.C., OSB	275	1986
Georgia-Pacific Corp., Glade Springs, Va., OSB	200	1987
International Paper Co., Nacogdoches, Texas, OSB	190	1987
Louisiana-Pacific Corp., Urania, La., MDF	45	1987

New panel plants, Canada

Blue Ridge Lumber (1981) Ltd., Whitecourt, Alta., MDF	140	1986

** million ft²; basis appropriate to product.*

Plant modernization projects

Company, mill location, product, nature of project	Startup
Bohemia Inc., Eugene, Ore., Pb, expansion, modernization	1985
Georgia-Pacific Corp., Woodland, Maine, Wb, various changes	1985
Louisiana-Pacific Corp., Hayward, Wis., Wb expansion	1985
Louisiana-Pacific Corp., Houlton, Me., Wb expansion	1985
Roy O. Martin Lbr. Co., Lemoyen, La., OSB, dryer, screens, conveyors, 10% capacity increase	1985
Masonite Corp., Spring Hope, N.C., MDF modernization	1985
Willamette Industries Inc., Lillie, La., Pb, boiler	1985
MDF Technology Inc., Deposit, N.Y., MDF, plant rebuild	1986
Weyerhaeuser Co., Moncure, N.C., Pb, added 90MM ft² capacity	1986
Willamette Industries Inc., Albany, Ore., Pb, dry fiber handling	1986

MISCELLANEOUS PROJECTS, U.S.

Company, mill location, nature of project	Startup
Bohemia Inc., Saginaw, Ore., expand glulam plant	1985
Boise Cascade Corp., Emmett, Idaho, 14-mW cogeneration plant	1985
Gang Nail Systems Inc., Fla., LVL plant	1985
Kitchens Bros. Mfg. Co., Hazlehurst, Miss., generating plant	1985
Yanke Energy Co., Auberry, Calif., 7.5-mW cogeneration plant	1985
Yanke Energy Co., Dinuba, Calif., 11.5-mW cogeneration plant	1985
Arrowood Technologies Ltd., Roxboro, N.C., LVL plant	1986
Bohemia Inc., Lincoln, Calif., 7.5-mW cogeneration plant	1986
Laminated Technologies Inc., Winston, Ore., LVL plant	1986
Pine Products Inc., Prineville, Ore., 5-mW generating plant	1986
Sherman Lumber Co., Sherman Sta., Maine, cogeneration plant	1986
Trus-Joist Corp., Natchitoches, La., LVL plant	1986
Ultrapower Inc., Sonora, Calif., 25-mW cogeneration plant	1986

MISCELLANEOUS PROJECTS, CANADA

Company, mill location, nature of project	Startup
Canfor Corp., Vancouver, B.C., chipping facility	1986

Industry continues to debate the effects of taxing Canadian lumber to make up for the alleged subsidy. Some analysts say duties could do more harm than good

Canadian logs cheaper, but would a tariff help?

Washington, D.C.

By Ted Blackman

There's no doubt about it. Whether you call Canada's stumpage policy a subsidy or not, logs in Canada are cheaper than in the U.S. As a result, Canadian sawmills can sell lumber for less.

The U.S. International Trade Commission's latest analysis of the lumber and logging industries in both countries determined that the average sawmill in Canada paid about 19% less for delivered logs than its U.S. counterpart. Since logging and hauling costs are often higher in Canada, low-priced stumpage gets most of the credit for the lower delivered-log price. The average is $205 per 1000 bd ft in the U.S. and $166 in Canada, according to the ITC report. It was issued in October.

"This report simply underscores what we've been saying from the outset," commented Stanley Dennison, chairman of the U.S. Coalition for Fair Lumber Imports. "Our Canadian competitors have only one real advantage—a government that gives them below-cost stumpage. When a government gives stumpage away to our competitors and allows them to subtract all their costs, that is a subsidy by any common-sense definition of the word."

The coalition's lawyers, Dewey-Ballantine, talked tougher: "The study debunks the Canadian assertion that their artificially low timber prices merely offset high Canadian logging costs."

Canada's response

Every coin has two sides, and Canadians managed to find a bright side to the ITC report.

"Very gratifying," said Mike Apsey, chief trade representative of the Canadian Forest Industries Council about the ITC study. It "shows the fallacy of asserting that the differences between the U.S. and Canada justify legislation to restrict U.S. imports of Canadian lumber."

Later, he told delegates to the Pacific Logging Congress in Vancouver, B.C., "I can summarize the situation from a Canadian perspective by saying that (Americans) claim we're subsidized, we say we're not. They have their numbers and arguments, we have ours. U.S. trade officials agreed with ours in the recent countervailing duty action. Now some in the U.S. would like to change the rules of the game so that the outcome of a new action would be a forgone conclusion in their favor."

Apsey suggested that "Canadian lumber is consumed to the extent that it is today in the U.S. not because we Canadians are doing something wrong, but because we're doing a number of things right."

Apsey pointed to advantages for Canadians which include more modern and efficient sawmills, American consumer preference for Canadian lumber and the high value of the U.S. dollar.

"Currency differences during recent years have clearly worked to the advantage of Canadian producers," he conceded. From 1977 to 1984, the nominal value of the Canadian dollar fell nearly 18% against the U.S. currency. Since then it has stabilized at about 73¢. It held that value even after international efforts started last fall to drive down the U.S. dollar's value.

But adjusting the dollar values for inflation changes the picture somewhat, according to the ITC. Between 1977 and 1984, the U.S. dollar gained 8.3% against Canada's dollar after inflation. Higher inflation in Canada wiped out much of the apparent change in the exchange rate. Only 1.2% of this appreciation occurred in 1982-84, when U.S. lumber demand jumped after the recession. Housing starts in 1983 and 1984 were up 65% from 1982. Canadian lumber sales to the U.S. soared 47% during this period, the ITC reported.

In 1982, Canada sold 58% of its 15.5 billion bd ft of lumber output in the U.S.—about 9 billion bd ft. In 1984, 64% of the 20.6 billion bd ft of lumber cut in Canada was sold south of the border—nearly 13.2 billion feet.

Canadians have increased their lumber capacity. It once was about half of the U.S. capacity, but has increased to two-thirds since 1978, the ITC noted. Most of this increase is in sawmills which sell most of their wood in the U.S.

Nearly all of Canada's productive timberland is owned by federal, and especially provincial, governments. The standard practice in Canada is to assign cutting rights to companies; the price of timber is calculated by various formulas. Stumpage last year ranged from $10 to $12 per 1000 bd ft in most instances.

In the U.S., where most timber is sold competitively, 1984 prices averaged slightly over $100 per 1000 bd ft. Low values assigned to Canadian trees more than made up for other higher costs and resulted in lower delivered-log costs, according to U.S. observers.

"Without the government assistance of extremely low timber prices," the Dewey-Ballantine analysis said, "the Canadian softwood lumber mills would be at about a $30 (per 1000 bd ft) cost disadvantage relative to U.S. producers. It is clear that Canadian lumber is taking increasing shares of the U.S. market—primarily because of this governmental stumpage assistance."

Negative effects in the U.S.

The alleged Canadian subsidies have considerable impact on the U.S., according to timber-industry consultant Paul Ehinger. He told the Pacific Logging Congress in November that subsidized Canadian lumber drives down prices in the U.S., crimping industry profits. This leaves companies short of cash needed to build new mills, update existing ones or do needed forestry work.

Many workers have lost their jobs be-

cause of this unfair competition, Ehinger said, and others have seen reduced wages. Cheaper lumber also forces down the price of U.S. timber, which costs both governments and private landowners money. Governments and schools lose again because people and companies in depressed timber economies pay less tax and need more aid.

In the long run, he added, the depressed timber economy cannot support investment in timber: buying land, planting trees and caring for them.

"Our present low lumber prices are through the courtesy of the Canadian taxpayers, who are receiving a net loss from the sale of their timber resource," Ehinger said. "The irony of this subsidy position is that these lands on which timber removal is being subsidized are only one-third as productive as are most of the U.S. lands where the negative impacts are being felt."

But as Apsey said, both sides have their figures on the subsidy question. The debate also remains over the effects of taxing Canadian lumber to make up for the alleged subsidy.

U.S. wood products trade balance with Canada (first nine months 1985; figures in $000)

Product	Exports	Imports	Balance
Softwood:			
Logs	48,159	13,802	34,357
Lumber	56,594	2,107,269	-2,050,675
Veneer	4,359	8,985	-4,626
Plywood	3,367	4,681	-1,314
Hardwood:			
Logs	8,286	1,183	7,103
Lumber	50,295	24,023	26,272
Veneer	7,021	41,431	-34,410
Plywood	1,891	20,280	-18,389
Wood chips	3,608	18,052	-14,444
Hardboard	9,835	6,321	3,514
Particleboard	6,829	94,110	-87,281
Other wood	59,699	431,678	-371,979
Total	**259,943**	**2,771,815**	**-2,511,872**

SOURCE: U.S. Census Bureau

Establishing duties could hurt

Imposing duties on Canadian lumber could hurt the U.S. economy as a whole more than it helps lumber producers, according to Wharton Econometric Forecasting Associates. The Canadian Forest Industries Council paid for the study, which indicates that lumber tariffs would cost four jobs for every job created in the U.S. The study assumes a 15% hike in lumber prices.

Wharton Econometrics estimated that only four states would gain 4669 sawmilling jobs: Oregon, Georgia, Alabama and Mississippi. The other 46 states would lose 18,080 jobs in various fields.

If lumber prices rose 30%, the study said, the U.S. would lose nearly 27,000 jobs by 1990. Even the South, which would gain the most lumber jobs, would lose more jobs in other sectors if lumber prices rose.

Wharton Econometric's study also assumed that Canada would not retaliate against any U.S. export to that country if the U.S. put tariffs on Canadian lumber. Last year, Canada bought nearly $45 billion from the U.S.

Reaction to the study's figures was predictable. Herb Fierst of the Canadian Forest Industries Council said the Wharton figures are conservative. Some proposals would impose a 60% duty on Canadian lumber, which would cost even more jobs.

But Bill Lange of the U.S. Coalition for Fair Lumber Imports said the Wharton study is not believable. He cited a Congressional Budget Office study which says that Wharton overstated the effects of higher lumber prices.

Individual companies and trade groups in the U.S. have formed their own coalition to lobby against the tariff scheme. This group claims 150,000 U.S. business members, ranging from the American Ladder Assn. to the Tampa (Fla.) Port Authority. Builders and lumber dealers are well represented, along with railroads and others in the shipping business.

A major target is H.R. 2451, written by Rep. Sam Gibbons (D-Fla.). It would impose duties on products made from subsidized natural resources. The bill's definition of subsidy would include Canadian timber, which is priced considerably lower than in the U.S. The bill's removal rights section says that selling government timber below prices prevailing in the U.S. is a subsidy.

(Canada contends that its pricing system is not a subsidy. The ITC's 1982 study supported Canada on this point: the ITC said it found no evidence of a significant subsidy for Canadian sawmillers. "Nothing in this [1985] report should be construed to indicate how the Commission would find in an investigation . . . ," the current study states.)

Canada's Apsey said that the part of H.R. 2451 which covers stumpage pricing "is a unilateral, arbitrary attempt led by a handful of U.S. lumber producers to change the international rules under which our two countries have been operating." He added that the bill tries to get around the 1983 ITC ruling by "changing the rules and establishing new and arbitrary criteria for what constitutes a subsidy."

Sen. Dale Bumpers (D-Ark.) told the Southern Forest Products Assn. annual meeting in November that there is no doubt that Canada subsidizes its timber. He said he supports both the Gibbons bill and another which would limit the amount of Canadian lumber allowed in the U.S.

Although House committee work on the Gibbons bill was expected in December, it seemed unlikely that it could go to the House floor until sometime this year.

John Koelemij, president of the National Assn. of Home Builders, called the Gibbons bill "the perfect way to damage American interests."

The bill "not only would kill four U.S. jobs for every one it created, but it would also directly increase consumer costs for new homes, newsprint and other products, and invite retaliation against a broad range of American goods sold in Canada," he claimed.

The NAHB originally said that the Gibbons bill would add $2500 to the price of a single-family home. The group later backed off from this assessment. The Congressional Budget Office calculates the effect at $300. ■